New Financial Model

(Infinite Cycle of Consumption)

Abstract: This paper series proposes a New Financial Model for the economies across the globe to solve the economic problems they face. New Financial Model proposes two new things: New Financial Tool and New Pension System. New Financial Tool will help authorities (central banks, governments, corporates etc.) manage aggregate demand, come out of the low growth period and maintain economic growth/employment in the high-interest rate period as well while fighting inflation/stagflation, keeping the financial stability, Thus will ensure the sustainable economic growth. New & Universal Pension System will ensure Old age security.

Paper-1: talks about the concepts of consumption and saving behavior of individuals in history and present. It mentions the present solutions to handle the low/high growth period and also discusses various topics from Keynesian Economics to come to the central point for the new financial model.

Paper-2: New Financial Model. Following are the features of the New Financial Model:

- ***New Financial Model***: Consumers' focus will be more on consumption rather than saving.
- ***New Financial Tool*** for Authorities (Central Banks, Governments)
- Rule out direct Government spending/intervention. **(*i.e. Keynesian Economics*)**
- ***Solution*** to come out of a ***low growth period*** (recession/economic depression/economic crisis).
- ***Solution*** of maintaining growth and generating employment ***during high interest rate period*** while fighting inflation and keeping financial stability of the economic unit.
- ***Benefits to Government***: Multifold increase in tax collection, Less Fiscal pressure etc.
- ***Benefits to Entrepreneurs***: Infinite cycle of consumption, more consumption more profits etc.
- ***New Pension System.***

JEL Codes:-E, P

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New Financial Model

Infinite Cycle of Consumption

(Paper – 1: An Introduction)

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1st Part starts……

Let me start the paper with a paragraph about ancient humans. (In the box below)

Ancient humans

Forager societies: Groups of Homo sapiens lived together in the forest. The population was less.

Technology – Technology to exploit natural resources was not developed much. Use of Sticks and stones in hunting to get food.

Economic system - Management of Capital and labor in the economic unit was simple. They used to collect the food, share it and eat it. Sharing, and bartering of resources like food, meat, and woods. They learned about food storage at a later stage.

Thoughts – fear of nature. So devotion towards various natural phenomena and resources, lighting, sun, trees etc. The development of languages and culture was at a preliminary stage.

As per the available historical facts, ancient humans like the many other species of nature used to collect their food on daily basis for their survival. Their dependency on nature was direct and the habit of saving (storage of food in this context) was not developed in them. Whatever food (their income in the present context) they used to collect during the day, they used to consume that food during the day. In Ancient Times

I (income: food in this context) = C (***consumption***) ---------- **(1)**

Consumption mentioned in equation 1, is known as autonomous consumption today. Basically, this much consumption is for the necessities of a human being like food, clothes, water, shelter etc. or we can say this consumption is necessary for the survival of a human being. This consumption expenditure occurs even at zero income level through dissaving (using savings) or through debt and does not change much with the change in income in short term. Debt obligations are also included in the autonomous consumption, as debt obligations do not change with change in income and have to be paid at the time.

Ancient humans used to consume or spend (expenditure) their whole income (food). **The habit of saving** which today directly affects **induced consumption** was not developed in the ancient humans initially. This habit developed in them with time **as they learned about the ways of storage.**

Storage of food (saving) provided them security from the scarcity of food, natural disasters etc.

The level of saving (storage of food) in ancient humans depended upon their projection of consumption in future and the projected danger of scarcity of food due to various natural events. **So level of savings depended upon their mind's projection of future needs as income (food) was not fixed or regular.**

The habit of saving which provides security and financial freedom to humans developed in them with experience. So saving is the human mind's experience generated habit. *On the one hand*, the Savings is the excess of income over consumption and on other hand, *the Level of saving for a human depends upon his emotional mind's projection of future needs & desires*. Someone is saving by projecting his future needs like retirement life, married life, education, children's education, parent's care, medical expenses, children's marriage etc. and someone is saving as having a desire to have a brand new car, a motorcycle, a good built house or bungalow, for a foreign tour, for entertainment etc. After the habit of saving is developed, the equation becomes

I (Income) = C (Consumption) + S (Saving) ---------- (2)

So, S (Saving) = I (Income) - C (Consumption) ---------- (3)

Saving (excess of income over consumption and projected future expenditure) directly affects the present level of consumption (**induced consumption**). As

Total Consumption = Autonomous Consumption + Induced Consumption---------- (4)

Autonomous consumption, as already been discussed above is a mandatory or kind of basic consumption like food, shelter, utilities, health care etc. which does not change much frequently with the change in income.

Whereas induced consumption is a part of total consumption which is spent from disposable income after excluding basic consumption needs (that is autonomous consumption) and saving from it. Mathematical expression below

From equation (3) => Total Consumption = Income – Saving--------- (5)

Now putting total consumption from equation (4) in equation (5)

Autonomous Consumption + Induced Consumption = Income – Saving

Induced Consumption = Income – Saving - Autonomous Consumption

So, Induced Consumption = Income – (Autonomous Consumption + Saving)--------- (6)

Equation (6), autonomous consumption does not vary much with an increase or fall in income in short term. **What affects the level of induced consumption is disposable income and saving.** At a given income, after the autonomous consumption, the Level of both (Induced consumption (how much to consume) and saving (how much to save)) depends upon the human's mind perception of the present and future.

1st Part ends… .....2nd Part Starts

Some Concepts from Keynesian Economic theory

The Level of Induced consumption and saving, changes with the change in disposable income. To what extent do these two changes with the change in disposable income. Let us take help from Keynesian economics.

Consumption C = C (A) + MPC * I (d)---------- (7)

Here C (A) is autonomous consumption. **MPC * I (d) = induced consumption**. MPC is marginal propensity to consume (MPC) and I(d) is disposable income. So, induced consumption depends upon the level of disposable income. Induced consumption increases with the increase in disposable income (net personal income after taxes).

Marginal propensity to consume (MPC from Keynes's economics) is the ratio of change in consumption to the change in income; MPC **tells us how much induced consumption changes with the changes in disposable income**.

MPC = dC/dI (change in consumption/change in disposable income)----------(8)

Marginal propensity to save (MPS) is the ratio of change in saving to the change in income, MPS **tells us how much saving changes with the change in disposable income**.

MPS = dS/dI (change in saving/change in disposable income) ----------(9)

Example 1.0. Let us assume that increase in income is Rs. 1000. With this, consumption expenditure increases by Rs.700 and saving increases by Rs. 300, then

MPC will be 0.7 (700/1000) and MPS will be 0.3 (300/1000)

From Keynesian economics, values of MPC and MPS are always greater than 0 but less than 1. (Between 0 & 1)

MPC + MPS = 1 [from above example: 0.7+0.3 = 1]

With the increase in disposable income, induced income and saving increases. Some part of the increased income will be consumed and some will be saved.

Multiplier theory: In economics, multiplier tells us about the effect of change in one economic parameter on the other economic parameters in relation to the first. For example, if the multiplier is 2, then effect is 2 times, if it is 3 then effect is 3 times etc. Below is the mathematical expression:

Income (I) = C (consumption) + S (as Saving = Investment)

dI (change in income) = dC (change in induced consumption) + dS (change in Investment)-- (10)

Let us put the value of dC from equation 8, in above equation

dI = MPC*dI + dS

dI (1-MPC) = dS

dI/dS = 1/(1-MPC)

M = 1/ (1-MPC) where M is spending or investment multiplier = dI/dS---------- (11)

As MPC+MPS = 1. So MPS can be equal to 1 – MPC. So we can also write the equation 11 as below

M = 1/MPS----------(12)

The value of the spending (or investment) multiplier always varies between 1 and infinity as the value of MPS & MPC is always between 0 and 1 in normal conditions. From equation 11 and 12 we can say

Lower the MPS, higher will be the multiplier effect as the induced consumption will be high. (Or vice versa)

Higher the MPC, higher will be the multiplier effect as the saving will be less. (Or vice versa)

For example, if MPS is 0.2 so MPC will be 0.8 as (1-MPS), then the multiplier will be 5 in both equations 11 and 12.

Aggregate demand (AD): Aggregate demand is the sum of consumption by all the components (households, government, firms and the outside world) of the economy at any given time. We can also say that the Total demand for goods and services in an economic unit at any given time is known as aggregate demand. Aggregate demand is the GDP (gross domestic product) of any economy by the expenditure side. Mathematical expression

Aggregate demand = Consumption (by individuals and households) +Capital Investment (by private firms) + Government spending (by government) + Net exports (exports-imports: consumption by outside world)

APPENDIX TABLE 2 : GROWTH RATES AND COMPOSITION OF REAL GROSS DOMESTIC PRODUCT
(At 2011-12 Prices)

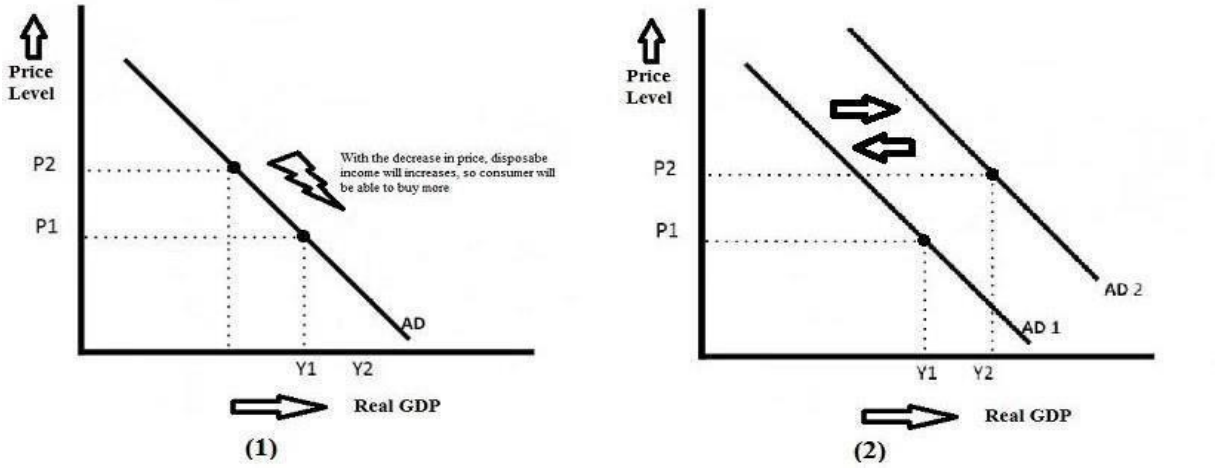
(Per cent)

Sector	Growth Rate				Share		
	Average 2013-14 to 2019-20	2017-18	2018-19	2019-20	2017-18	2018-19	2019-20
1	2	3	4	5	6	7	8
Expenditure Side GDP							
1. Private Final Consumption Expenditure	7.0	7.0	7.2	5.3	56.0	56.6	57.2
2. Government Final Consumption Expenditure	7.9	11.8	10.1	11.8	10.2	10.6	11.3
3. Gross Fixed Capital Formation	4.8	7.2	9.8	-2.8	30.8	31.9	29.8
4. Change in Stocks	16.4	76.0	22.5	1.9	1.6	1.9	1.9
5. Valuables	-1.0	27.2	-11.9	13.5	1.5	1.2	1.3
6. Net Exports	-17.1	-257.7	11.8	29.2	-3.6	-3.0	-2.0
a) Exports	3.2	4.6	12.3	-3.6	19.7	20.9	19.3
b) Less Imports	1.5	17.4	8.6	-6.8	23.4	23.9	21.4
7. Discrepancies	-58.4	65.1	-73.9	-25.6	3.5	0.9	0.6
8. GDP	**6.8**	**7.0**	**6.1**	**4.2**	**100.0**	**100.0**	**100.0**

Above is the composition of the Real GDP of the Indian economy in 2019-20. Here private final consumption expenditure accounts for 57.2% of total real GDP. (Source: RBI Annual Report 2019-20)

In aggregate demand, consumption by individuals and households i.e. **private consumption** is the most important component as it generally accounts for nearly 55-65% of total aggregate demand in any economy.

Aggregate demand Curve:



1. AD slopes downward because, with the price decrease, demand increases as people will be able to buy more (increase in real income).

2. AD curve shifts rightward: increase in aggregate demand due to various factors like increase in consumption (major component of AD), increase in capital investment, increase in government spending or increase in net exports.

Consumption (by individuals and households) increases with the increase in income, decrease in taxes and rise in wealth. Capital investment increases with a decrease in interest rates which makes borrowing cheaper and increased optimism toward the future economic outlook. Government spending increases with expansionary fiscal policy & vice-versa, net exports increase with the increase in competitiveness of an economic unit.

AD curve shifts leftward: decrease in aggregate demand due to decrease in above-mentioned factors.

Aggregate Supply (AS): Total value of goods and services produced in any economic unit at any given time available for consumption to various units. It can also be defined as the total amount of goods and services that producers are willing to sell at a given price in an economic unit. It gives the picture of the total production capacity of an economic unit at a given time.

Aggregate supply changes with the change in the price level will be shown in the AS curve, which will show the productivity of an economic unit at different price levels.

In an economic unit, Aggregate supply is measured by GVA (gross value added).

Below is the Gross value added (GVA) by three main segments Agriculture, Industry and Services in the Indian Economy for 2018-19.

GVA at Basic Prices (Base Year : 2011-12) Current Prices

Items/Year	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
1	2	3	4	5	6	7	8
Agriculture,Forestry and Fishing	1675107	1926372	2093612	2227533	2496358	2670147	2775852
Industry	**2074029**	**2269401**	**2469103**	**2775165**	**3010407**	**3316236**	**3708240**
Mining & Quarrying	285842	295794	308476	294011	321872	351058	410151
Manufacturing	1572837	1713452	1878369	2146189	2335068	2542089	2818218
Electricity, Gas, Water Supply & Other Utility Services	215350	260155	282258	334965	353468	423089	479871
Services	**5453557**	**6167380**	**6941565**	**7571801**	**8429152**	**9496332**	**10715723**
Construction	849365	921470	979086	991084	1082466	1213628	1376293
Trade, Hotels, Transport, Communication and Services Related to Broadcasting	1663986	1874467	2107597	2294513	2538268	2823263	3151709
Financial , real estate & professional services	1776632	2069508	2363347	2626138	2911901	3252789	3666326
Public Administration, Defence and Other Services	1163574	1301935	1491536	1660067	1896516	2206652	2521395
GVA at Basic Prices	**9202692**	**10363153**	**11504279**	**12574499**	**13935917**	**15482715**	**17199815**

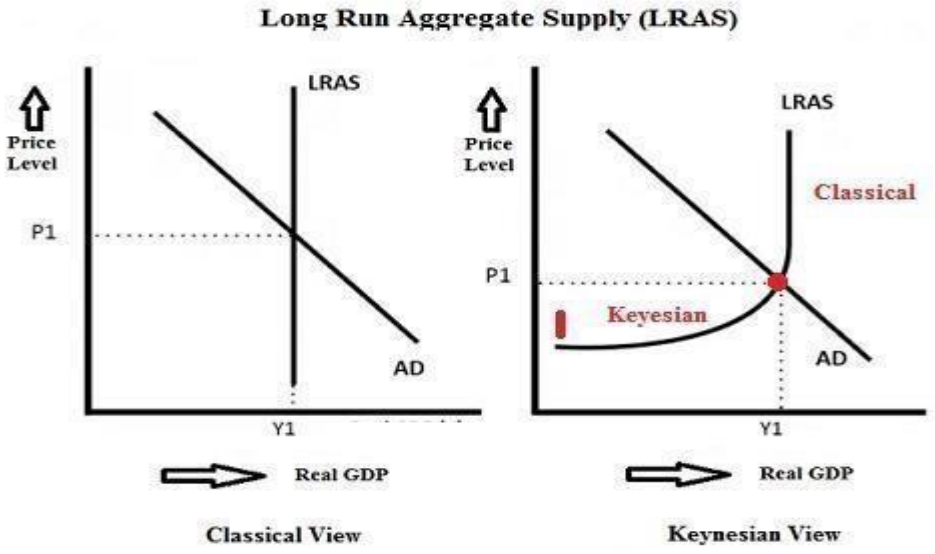
Notes : 1. Data for 2015-16 are Third Revised Estimates, for 2016-17 are Second Revised Estimates and for 2017-18 are First Revised Estimates.
2. Data for 2018-19 are Provisional Estimates.

Also see Notes on Tables.

Source : National Statistical Office (NSO).

Source: Handbook of Statistics on Indian Economy 2018-19.

AS Supply Curve: Aggregate supply curve is plotted for the two periods, one is for Long Run and the other is for Short Run.

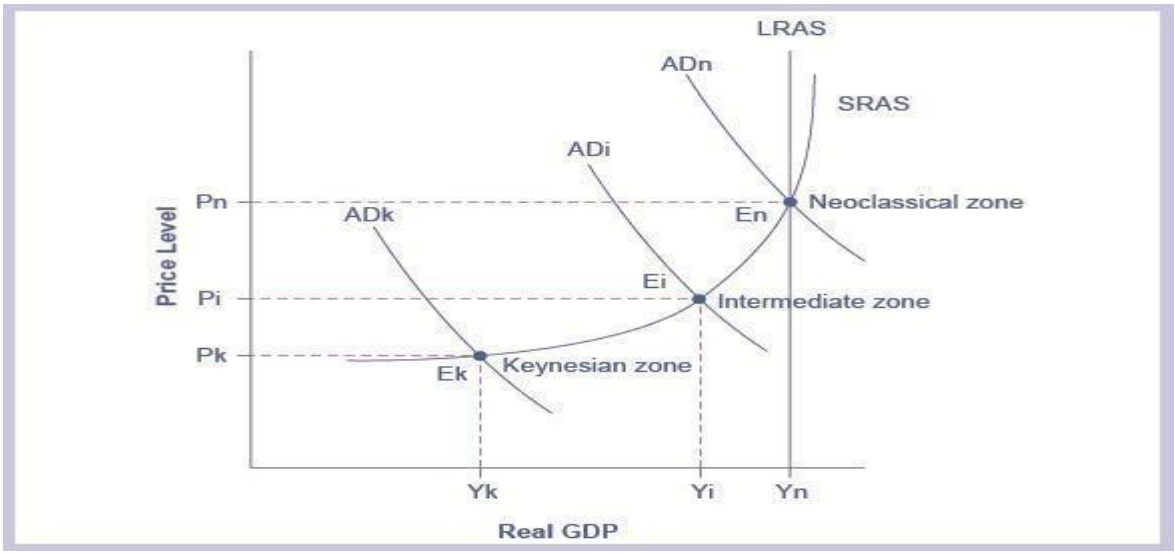


According to the classical view (Supply creates its own demand: Say's law), in long run an economic unit's productivity is inelastic and independent of prices. It is dependent on the factors like technology to harness the available resources, availability of capital and labor resources. Here, *the increase in aggregate demand at a given period will generate inflation (increase in prices).* Prices

(Inflation) and wages change with change in aggregate demand. An Increase in productivity is the only way to increase the real GDP.

According to the Keynesian view (demand creates its own supply) during the low growth period or recession (Short run: shown using red marks in image) an economic unit's productivity stays well below its actual capacity (factories can produce more, workers can work) due to less aggregate demand. To get out of this period, need to increase the aggregate demand so that production capacity can be fully utilized and unemployment can be decreased. *In these periods prices (inflation) and wages do not very much, with an increase in aggregate demand. The* Keynesian view is basically a combination of short-run (elastic) and long-run (inelastic).

AD-AS Model: Below is the Aggregate demand and supply model (image: by OpenStax Link)



Low growth Period or Recession: Yn (above image) is the potential output or potential Real GDP (the economic unit at near full employment) and it is presently at Yk (having unemployment in economic unit). Now the economic unit is below its potential capacity and the gap between two (Yn & Yk) is called a **recessionary gap**. This low growth period or Recession (*general drop in aggregate demand*) can be caused by various events like financial crises, natural disasters (like covid-19 pandemic), economic bubble burst etc.

High growth period: When the aggregate demand in an economic unit increases the potential output (rightward shift of AD to En point in the above image), then this period will be high growth or inflationary period and the difference between the *output of an economic unit needed to fulfill the increased demand and the potential output*, will be represented by an inflationary gap.

Now according to Keynesian Economics, during both these periods Government has an important role to play through fiscal policy. During the low growth or Recession period, the government must increase the spending to increase the aggregate demand so to fill the recessionary gap and during high growth periods, the government must decrease its spending to decrease the aggregate demand so as to fill the inflationary gap.

2nd Part ends……3rd Part Starts

The Monetarism

A school of thought associated with the work of Milton Friedman emphasized on controlling the money supply in an economic unit to increase its output (in short run) and control prices (inflation in long run). *Monetarism is the outcome of modern quantity theory* (Monetary History of the United States, 1867–1960 by Anna Schwartz and Milton Friedman) and acc. to it, t h e **supply of money (M) in an economic unit at a given time determines its economic growth**.

Mathematical expression

$$M * V = P * Q$$

Where M is the supply of money in an economic unit, V is the velocity at which per unit of money is spent, P is the price of goods & services and Q is the quantity of goods & services sold.

According to Monetarists, change in M money supply causes a change in inflation (P) and the output (Q) of an economic unit. Consider the V as constant. M determines price level P (inflation), output and employment.

This school of thought emerged as a major opposition to Keynesian economics (*aggregate demand determines economic growth*). As we have read in the paper above, Keynesian economics asserted that during the *low growth period or Recession*/*high growth period* there is a need to *increase/decrease aggregate demand* and it is the government that should spend more/less to create the balance in the economic unit.

Monetarists were not in favor of use of fiscal policy (government spending), acc. to them it will decrease the private sector spending and will cause the inflation in the economic unit. They emphasized that the government/central bank should pump enough money to increase the output of an economic unit during low growth periods and adjust the money supply to keep inflation low in the long run.

3rd Part ends… .....4th part starts

Policies for Low growth period or Recession

As has been discussed low growth period or recession is a period of low economic activity in an economic unit (cause: various events like financial crisis, the economic bubble burst, natural disasters e.g. pandemic like covid-19, war, adverse trade policies etc.). Generally, there is a decrease in spending during this period leads to less aggregate demand.

Liquidity trap (when interest rates are nearly zero), balance sheet recession (huge fall in asset prices), depressions, supply sides shock etc. are various types of low growth periods or recessions.

Major Policies to avoid low growth and recession:

1: Fiscal Policy: High Government spending, Tax cuts, devaluation to increase exports (for a positive balance of payments) etc.

2. Monetary Policy: Interest rates cut, Quantitative easing, increasing money supply etc.

3. Financial stability: Saving the banks and financial institutions (Too big to fail) to maintain depositors' and investors' confidence.

During the high growth period, monetary and fiscal policies are opposite to the low growth period. Monetary policy: interest rise, decreasing the money supply. Fiscal Policies: decreasing government spending, increasing taxes etc.

4th Part ends…..... 5th part starts

Let's find key points from the above discussion

- **Technology** to harness the available resources in an economic unit plays a very important role. As Technology changes (Neolithic revolution, Industrial revolution, Internet Revolution and The so-called fourth revolution), the mode of production changes drastically. So, In the long run it is technology and its reach (supply side) that determines the economic growth of an economic unit. In the long run, the focus of the management of an economic unit must be on the innovation and adoption of efficient technologies so that productivity (output) can be increased.

  When the technology is static (static period) in an economic unit, it is the aggregate demand that determines the economic growth in an economic unit and the focus must be on increasing the aggregate demand to generate the economic growth.

  Suppose that an economic unit is going through a recession or a low growth period, It won't be possible to innovate a new technology (for increasing the productivity of the economic unit) to come out of recession in a very short span. It is the aggregate demand that can help to come out of a recession or low growth period.

- **Aggregate demand** depends upon the **spending (consumption)** done by various components (private individuals: households, government & firms) of an economic unit. And the spending (consumption) depends upon the financial model used by those components.

  The Financial model is basically*, how an economic unit manages the available resources at a given time. A Financial model gives the information about => Personal finance: how an individual manages his resources (especially his income and other assets), => Public finance: how a government design various policies (fiscal, monetary etc.) for economic progress and => Corporate finance: how a firm uses its resources and will use these in future to enhance firm's profitability.*

  Aggregate demand = Consumption (by individuals and households) + Capital Investment (by private firms) + Government spending (by government) + Net exports (exports-imports: consumption by outside world)

  In aggregate demand, consumption by individuals and households i.e. **private consumption** is the most important component as it generally accounts for nearly 55-65% of total aggregate demand in any economy. [Discussed in part 2, for more please read the 2nd part]

So let us discuss the *personal finance model* as private consumption depends upon how an individual manages the available resources [his income especially and other assets].

5th Part ends ..... 6th Part Starts

Personal finance model

In ancient times, the personal finance model was very simple. Initially Equation was

Income (collected food) = consumption.

In ancient humans habit of saving was not developed initially; they learned it with time (experience). [From 1st part of the paper, for more please read it]. After the habit of saving is developed, the equation becomes

Income = consumption + saving.

Saving changed the personal finance model present in ancient times. The habit of saving in humans gives them the choice to save a part of their income for the future. This directly affected the level of consumption at any given time as part of available income got diverted to saving.

As Consumption = Autonomous consumption (mandatory one on basic needs) + Induced consumption (for increasing life comfort or consumption after completing basic needs).

=>Induced consumption = Income – (Autonomous consumption + saving). [From equation (6)]

The Level of *induced consumption* depends upon disposable income and savings, as autonomous consumption does not change much in the short run.

Disposable Income depends upon the individual's profession, the level of economic activity in an economic unit, price levels (inflation) and the tax structure. Saving involves the human's mind perception of the present and future.

On the one hand, Savings is excess of income over consumption and on other hand the *Level of saving for a human depends upon his emotional mind's projection of future needs & desires***.** Someone is saving by projecting his future needs like retirement life, married life, education, children's education, parent's care, medical expenses, children's marriage etc. and someone is saving as having a desire to have a brand new car, a motorcycle, a good built house or bungalow, for a foreign tour, for entertainment etc. [From 2nd part of the paper, for more please read it]

Saving = Income – Consumption

Saving definition: Excess of income over consumption (1st point) and projected future expenditure (2nd Point).

Let us discuss two points to explain the definition of saving in an economic unit.

1st point: Excess of income above consumption.

According to this point, the economic unit uses part of its income **first** for consumption and the

remaining part of income after consumption (excess of income above consumption), goes to saving.

The Economic unit focuses on the consumption than the saving in the following conditions:

1. Fixed regular income or minimum fixed income.
2. No Sense of any type of Insecurity (like job loss, any economic or social crisis) presently and for the future.
3. Etc.

A Normal or high growth period is the most fruitful period for the economic unit, as the economic unit focuses more on consumption than saving.

Induced consumption increases with the increase in income. *Higher the MPC, higher will be the multiplier effect* as the saving will be less & vice versa. M = 1/ (1-MPC). Also, less inflation in an economic unit will make the disposable income high.

2nd point: Saving for the projected or expected future expenditure. Following are the conditions:

1. When there is *Projected future expenditure* for futures needs (like retirement life, married life, his education, children's education, parent's care, medical expenses, children's marriage etc.) and future desires(to have a brand new car, a motorcycle, a good built house or bungalow, for a foreign tour, for entertainment, investments to get high returns etc.)
2. Irregular income.
3. Uncertain future (any economic or social crisis, uncertainty about job continuity or expected fewer job opportunities in future)

Here where the economic unit focuses more or equally on saving along with consumption, this curtails the current consumption level.

6th part ends…..7th Part Starts

Central point

In the current financial model (personal & for firms), the **option of saving** gives a choice to an individual/firm to save a part of income for the future and not to consume it currently. Now the level of saving (how much a human saves from income) involves human behavior.

As discussed above in the 2nd point of saving: projected future expenditure, **uncertain future, irregular income etc. at any given time directly affects the consumption and individuals/firms start focusing on the saving as well.** Due to an uncertain future in a low growth period or recession, individuals & firms decrease their spending (firms reduce capital expenditure) and focus on savings equally or more. This reduces consumption (spending), so aggregate demand decreases. That's why government spending (Keynesian Economics) plays an important role during this period as other components refrain from spending much. Also, monetary authorities (central bank) change interest rates to affect the individual's decision of spending and consumption at any given time.

NEW FINANCIAL MODEL

A new finance model (personal and for firms) in which individual/firm's focus will be more on consumption than the saving. I believe that in the present financial model the option of saving at any given time affects the consumption. The New financial model will encourage humans to save less and focus on consumption.

As discussed in the 2nd part, the **lower the MPS** higher will be the multiplier effect as the induced consumption will be high & vice versa. [Keynesian Economics read 2nd part for more]

The Proposed financial model will equally take care of two important aspects. One is Gross capital formation [as saving = investment, saved money is used by various components of an economic unit. for example banks lend the saved money to corporates which helps in overall capital formation and the economic growth of an economic unit. Harrod-Domar model, More the saving => More Investment => More capital stock => high economic growth.] **And other is projected future expenditure i. e future needs & desires** (if an individual will save less then how he will plan for his retirement life, his & his family member's future medical expenses and education. An individual is desirous of buying of a brand new car, building a new house, going on a foreign tour. How will he plan that if his saving will be less?)

Presently, the interest rate is a tool which is used by the monetary authorities to change the individual/firm's decision about consumption and saving levels at any given time. But we have the cases where zero or near-zero interest rates fail to increase the inflation in the economic units. *Our proposed financial model will give a new tool to monetary authorities*.

New Financial Tool VS Interest Rates		
S.No.	**Interest Rates**	**New Financial Tool**
1	Interest rates are used as a tool by central banks to influence the demand/consumption in an economic unit as a whole.	New Financial Tool can also be used by central banks to spur the growth in of Economic unit.
2	It can be positive/negative OR more/less from the base range as decided by the central bank according to the inflation and economic activity present in an economic unit.	Its effect will be only on the positive side. Can be used only to spur the demand in the economy.
3	It affects t h e economic unit as a whole, not only a specific sector.	It can be used to target a specific sector, having a positive effect on the economic unit as a whole as well.
4	As it is used to influence the demand and create the employment.	It will be very effective for employment generation as specific sectors can be targeted.
5	Risk of inflation/deflation remains high.	The Risk of inflation/deflation won't be that high. It can be used to spur the demand and for Employment generation during high interest rate periods as well.
6	Interest rates influence the capital inflow and outflow in the economic unit.	There won't be any effect on the capital inflow/outflow in an economic unit.
7	It also affects the commodity and capital markets too much extent.	There will be long term and positive effects from this tool. Won't be immediate effects on Capital and commodity markets.

8	Interest rates are responsible (boom/bust) in the economic unit	It won't be responsible for the cycles in the economic unit.

The Proposed financial model will give a new tool to monetary authorities. New Financial Tool can be used along with interest rates to increase the demand in the economic unit, generate the employment and control the inflation as well.

Following are the features of The New Financial Model:

- ***New Financial Model***: Consumers' focus will be more on consumption rather than saving.
- ***New Financial Tool*** for Authorities (Central Banks, Governments)
- Rule out direct Government spending/intervention. **(*i.e. Keynesian Economics*)**
- ***Solution*** to come out of a ***low growth period*** (recession/economic depression/economic crisis).
- ***Solution*** of maintaining growth and generating employment ***during high interest rate period*** while fighting inflation and keeping financial stability of the economic unit.
- ***Benefits to Government***: Multifold increase in tax collection, Less Fiscal pressure etc.
- ***Benefits to Entrepreneurs***: Infinite cycle of consumption, more consumption more profits etc.
- ***Others.***

Paper – 2, introducing New Financial Model has been released, download it from the website https://newfinancialmodel.com/paper2.html

I request the interested organizations/governments to contact me for a discussion on the model.

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